

HARBOR BEACH COMMUNITY SCHOOLS

Harbor Beach, Michigan

REPORT ON FINANCIAL STATEMENTS

(with additional information)

June 30, 2006

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Harbor Beach Community Schools Management's Discussion and Analysis For Fiscal Year Ended June 30, 2006

Harbor Beach School District, a K-12 school district located in Huron County, Michigan has implemented the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the Harbor Beach School District administration's discussion and analysis of the financial results for the fiscal years ended June 30, 2006 and June 30, 2005.

Generally accepted accounting principles (GAAP), according to GASB 34, require the reporting of two types of financial statements: fund financial statements and government-wide financial statements.

Fund Financial Statements

For the most part, the fund financial statements are comparable to financial statements prepared prior to GASB 34. The primary difference is that the Account Groups (General Fixed Assets and General Long-term Debt) are no longer reported. The fund level statements are reported on a modified accrual basis in that only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual". In the State of Michigan, school district's major instructional and instructional support activities are reported in the General Fund. Additional activities are reported in various other funds. These include Special Revenue Funds, Debt Service Funds, and Capital Projects Funds.

In the fund financial statements, capital assets purchased are reported as expenditures in the year of acquisition with no asset being reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. The obligations for future years' debt service are not recorded in the fund financial statements.

Government-wide Financial Statements

The government-wide financial statements are required by GASB 34. These statements are calculated using full accrual accounting and more closely represent those presented by business and industry. All of the District's assets and liabilities, both short and long-term, are reported. As such, these statements included capital assets, net of related depreciation, as well as the bonded debt of the District.

Harbor Beach Community Schools Management's Discussion and Analysis For Fiscal Year Ended June 30, 2006 ---

Summary of Net Assets

The following schedule summarizes the net assets at fiscal years ended:

Assets	<u>June 30, 2005</u>	<u>June 30, 2006</u>
Current assets	\$ 3,223,403	\$ 3,390,983
Deferred amount on bond refunding	530,000	504,762
Capital assets	19,195,011	19,271,025
Less: Accumulated depreciation	<u>(2,435,925)</u>	<u>(2,864,688)</u>
Non current assets	17,289,086	16,911,099
Total assets	<u>\$20,512,489</u>	<u>\$20,302,082</u>
Liabilities		
Current liabilities	\$ 902,410	\$ 961,170
Long-term liabilities	<u>11,578,207</u>	<u>11,219,927</u>
Total liabilities	12,480,617	12,181,097
Net Assets		
Invested in capital assets, net of related debt	\$ 4,842,747	\$ 4,828,130
Restricted for debt service	202,480	240,967
Unrestricted	<u>2,986,645</u>	<u>3,051,888</u>
Total net assets	8,031,872	8,120,985
Total liabilities and net assets	<u>\$20,512,489</u>	<u>\$20,302,082</u>

Analysis of Financial Position

During the fiscal year ended June 30, 2006, the District's net assets increased by \$89,113. A few of the more significant factors affecting net assets during the year are discussed below.

1. Depreciation Expense

GASB 34 requires school districts to maintain a record of annual depreciation expense and the accumulation of depreciation expense over time. The net increase in accumulated depreciation expense is a reduction in net assets.

Harbor Beach Community Schools

Management's Discussion and Analysis

For Fiscal Year Ended June 30, 2006

Depreciation expense is recorded on a straight-line basis over the estimated useful lives of the assets. In accordance with GAAP, depreciation expense is calculated based on the original cost of the asset less an estimated salvage value, where applicable. For the fiscal years ended June 30, 2006 and June 30, 2005, \$445,748 and \$458,085 was recorded for depreciation expense.

2. Capital Outlay Acquisitions

For the fiscal year ended June 30, 2006, \$92,999 of expenditures were capitalized and recorded as assets of the District. These additions to the District's capital assets will be depreciated over time as explained above.

The net effect of the new capital assets and the current year's depreciation is a decrease to capital assets in the amount of \$352,749 for the fiscal year ended June 30, 2006.

Results of Operations

For the fiscal years ended June 30, 2006 and June 30, 2005, the results of operations, on a District-wide basis were:

	June 30, 2005		June 30, 2006	
	Amount	% of Total	Amount	% of Total
General Revenues				
Property Taxes	\$2,097,792	28.8%	\$2,157,567	28.4%
Investment earnings	31,336	.3%	73,639	1%
State sources	4,119,795	56.6%	3,943,054	51.8%
Transfers from other districts	387,191	5.3%	470,126	6.2%
Other	<u>47,947</u>	<u>.7%</u>	<u>68,604</u>	<u>.9%</u>
Total general revenues	6,684,061	91.7%	6,712,990	88.3%
Program Revenues				
Charges for services	143,258	2.0%	114,478	1.5%
Operating grants	<u>455,128</u>	<u>6.3%</u>	<u>779,715</u>	<u>10.2%</u>
Total revenues	<u>7,282,447</u>	<u>100.0%</u>	<u>7,607,183</u>	<u>100.0%</u>
Expenses				
Instruction	\$3,926,412	54.0%	\$3,743,100	49.8%
Support services	1,887,684	25.7%	2,344,383	31.2%
Community services	12,227	.2%	0	0%
Food services	275,115	3.8%	312,087	4.2%
Athletics	164,548	2.3%	156,397	2%
Interest on long-term debt	558,439	7.7%	491,117	6.5%
Unallocated depreciation expense	<u>458,085</u>	<u>6.3%</u>	<u>470,986</u>	<u>6.3%</u>
Total expenses	<u>7,282,510</u>	<u>100.0%</u>	<u>7,518,070</u>	<u>100.0%</u>
Increase (decrease) in net assets	<u>\$(63)</u>		<u>\$89,113</u>	

Harbor Beach Community Schools Management's Discussion and Analysis For Fiscal Year Ended June 30, 2006

Analysis of Significant Revenues and Expenses

Significant revenues and expenditures are discussed in the segments below:

1. Property Taxes

The District levies 18 mills of property taxes for operations on non-homestead properties, less the mandatory reductions required by the Headlee Amendment, Article IX, Section 3I. According to Michigan law, the taxable levy is based on the taxable valuation of properties.

The annual taxable valuation increases are capped at the rate of the prior year's Consumer's Price Index increase or 5%, whichever is less. At the time property is sold, its taxable valuation is readjusted to the State Equalized Value, which in theory is half of the property's market value.

For the 2005-2006 fiscal year, the District levied \$1,310,047 in non-homestead property taxes. This represented an increase of 2.27% from the prior year. The amount of unpaid property taxes at June 30, 2006, less an estimate for those deemed to be uncollectible, was \$1,500.

The following table summarizes the non-homestead property tax levies for operations for the past five years:

Fiscal Year	Non-homestead Tax Levy	% Increase (Decrease) from Prior Year
2005-2006	\$1,310,047	2.27%
2004-2005	1,280,981	6.61%
2003-2004	1,201,543	3.05%
2002-2003	1,165,946	5.85%
2001-2002	1,101,498	5.00%

2. State Sources

The majority of the state sources is comprised of the per student foundation allowance. The State of Michigan funds districts based on a blended student enrollment. The blended enrollment consists of 75% of the current year's fall count and 25% of the prior year's spring count. For the 2005-2006 fiscal year, the District received \$6,875 per student FTE, which was \$175 more than the base amount received for the 2004-2005 fiscal year.

Harbor Beach Community Schools Management's Discussion and Analysis For Fiscal Year Ended June 30, 2006

3. Student Enrollment

The following schedule lists the actual FTE for the blended student enrollment for the past five fiscal years.

	Actual Blended Student FTE
2005-2006	725
2004-2005	772
2003-2004	778
2002-2003	779
2001-2002	789

4. Operating Grants

The District funds a significant portion of its operations with categorical sources. For the fiscal year ended June 30, 2006, federal, state, and other grants accounted for \$779,715. This represents an increase over the total grant sources of \$324,587 received for the 2004-2005 fiscal year.

5. County Special Education Allocation

For the fiscal year ended June 30, 2006, the District received an allocation from the Huron Intermediate School District in the amount of \$322,695 to assist with the education of students with special needs. This amount represents a decrease of \$49,995 over the prior fiscal year.

6. Interest Earnings

The District received interest on its investments in the amount of \$73,639 for the fiscal year ended June 30, 2006. Interest revenues are increased from the prior fiscal year by \$42,303 due to more cash to invest in the Capital Project Fund and the General Fund.

Harbor Beach Community Schools Management's Discussion and Analysis For Fiscal Year Ended June 30, 2006

7. Comparative Expenditures

A comparison of the expenditures reported on the Statement of Revenues, Expenditures, and Changes in fund Balances is shown below:

	2004-2005 Fiscal Year	2005-2006 Fiscal Year	Increase (Decrease)
Expenditures			
Instruction	\$3,945,874	\$3,836,099	\$(109,775)
Supporting services	2,005,602	2,344,383	338,781
Community services	12,227	0	(12,227)
Food service activities	275,115	312,087	36,972
Athletic activities	164,548	156,397	(8,151)
Capital Outlay	587,377	0	(587,377)
Debt Service	<u>829,666</u>	<u>829,678</u>	<u>12</u>
Total expenditures	<u>\$7,820,409</u>	<u>7,478,644</u>	<u>\$(341,765)</u>

General Fund Budgetary Highlights

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to its starting on July 1. Any amendments made to the operating budget must be approved by the Board prior to the close of the fiscal year on June 30.

For the 2005-2006 fiscal year, the District's board amended the general fund budget several times. The following schedule shows a comparison of the original general fund budget, the final amended general fund budget, and actual totals from operations:

	Original Budget	Final Budget	Actual	Variance with Final Budget positive (negative)	% Variance
Total revenues	<u>\$5,993,244</u>	<u>\$6,422,747</u>	<u>\$6,468,636</u>	<u>\$45,889</u>	<u>.7%</u>
Expenditures					
Instruction	\$3,777,466	\$3,831,729	\$3,836,099	\$(4,370)	(.1)%
Supporting services	2,076,278	2,352,004	2,344,383	7,621	.3%
Community services	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0%</u>
Total expenditures	<u>\$5,853,744</u>	<u>\$6,183,733</u>	<u>\$6,180,482</u>	<u>\$3,251</u>	<u>.1%</u>

Harbor Beach Community Schools Management's Discussion and Analysis For Fiscal Year Ended June 30, 2006

The original revenue budget of \$5,993,244 was increased to \$6,422,747 primarily as a result of increased local revenues.

Capital Asset and Debt Administration

Capital Assets -

By the end of the 2005-2006 fiscal year, the District had invested \$19,271,025 in a broad range of capital assets, including school buildings and facilities, school buses and other vehicles, and various types of equipment. This represents a net increase of \$76,014 over the prior fiscal year. Depreciation expense for the year amounted to \$445,748, bringing the accumulation to \$2,864,688 as of June 30, 2006.

Long-term Debt -

At June 30, 2006, the District had \$11,540,000 in bonded debt outstanding. This represents a decrease of \$335,000 over the amount outstanding at the close of the prior fiscal year.

Factors Bearing on the District's Future

At the time that these financial statements were prepared and audited, the District was aware of the following items that could significantly affect its financial health in the future:

With the current economic condition in the country, and especially in the State of Michigan, uncertainty surrounds the level at which districts will be funded for the student foundation allowance for the 2006-2007 fiscal year. The early indication is that the foundation allowance will be increased slightly which will pose a challenge to the District to maintain structural balance while continuing with its educational programming.

As with other employers, the District continues to face a rapid increase in rates paid for employee benefits, particularly for health insurance. Additionally, the State has increased the retirement rate from 16.34% at October 1, 2005 to 17.74% beginning October 1, 2006 to fund the retirement system. The increase in the number of retirees projected to occur over the next few years may result in continued higher annual increases.

Harbor Beach Community Schools Management's Discussion and Analysis For Fiscal Year Ended June 30, 2006

The State of Michigan continues to increase its focus on student achievement. Results of standardized test scores (Michigan Educational Assessment Program) are compared from year to year, with the results being tabulated by school building and by district. With the changes to the federal Title I legislation resulting from the No Child Left Behind Act, adequate yearly progress of students will be more important as certain portions of funding are now tied to it.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report, or need additional financial information, please contact the Superintendent's Office, Harbor Beach Community School District, 402 South Fifth Street, Harbor Beach, Michigan 48441.



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August 30, 2006

INDEPENDENT AUDITOR'S REPORT

Board of Education
Harbor Beach Community Schools
Harbor Beach, Michigan 48441

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Harbor Beach Community Schools, as of and for the year ended June 30, 2006, which collectively comprise the basic financial statements of the District's primary government as listed in the table of contents. These financial statements are the responsibility of Harbor Beach Community School's, management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Harbor Beach Community Schools as of June 30, 2006, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 30, 2006 on our consideration of Harbor Beach Community Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages i through viii and page 26, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Board of Education
Harbor Beach Community Schools
August 30, 2006

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the primary government of Harbor Beach Community Schools' basic financial statements. The additional information on pages 27 to 51 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This additional information has been subjected to the auditing procedures applied in the audit procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Anderson, Tuckey, Bernhardt & Doran, P.C.

ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

BASIC FINANCIAL STATEMENTS

HARBOR BEACH COMMUNITY SCHOOLS
STATEMENT OF NET ASSETS
June 30, 2006

CURRENT ASSETS	GOVERNMENTAL ACTIVITIES
Cash and equivalents	\$ 1,186,063
Investments	1,325,082
Accounts receivable	-
Due from other governmental units	878,338
Property taxes receivable	1,500
TOTAL CURRENT ASSETS	3,390,983
NONCURRENT ASSETS	
Deferred amount on bond refunding	504,762
Capital assets	19,271,025
Less accumulated depreciation & amortization	(2,864,688)
TOTAL NONCURRENT ASSETS	16,911,099
TOTAL ASSETS	\$ 20,302,082
 <u>LIABILITIES AND NET ASSETS</u>	
CURRENT LIABILITIES	
Accounts payable	\$ 245,287
Benefits payable	100,345
Deferred revenue	2,850
Accrued interest	82,345
Retirement payable	21,812
Salaries payable	143,698
Other accruals	6,553
Current portion of long term debt	358,280
TOTAL CURRENT LIABILITIES	961,170
NONCURRENT LIABILITIES	
Noncurrent portion of long term debt	11,219,927
TOTAL LIABILITIES	12,181,097
NET ASSETS	
Invested in capital assets, net of related debt	4,828,130
Restricted for debt service	240,967
Unrestricted	3,051,888
TOTAL NET ASSETS	8,120,985
TOTAL LIABILITIES AND NET ASSETS	\$ 20,302,082

The accompanying notes are an integral part of the financial statements.

HARBOR BEACH COMMUNITY SCHOOLS
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2006

Functions/Programs	Expenses	Program Revenues		Governmental Activities
		Charges for Services	Operating Grants	Net (Expense) Revenue and Changes in Net Assets
Governmental activities:				
Instruction	\$ 3,743,100		\$ 436,245	\$ (3,306,855)
Support services	2,344,383	\$ 18,361	186,962	(2,139,060)
Community services	-	-		-
Food services	312,087	67,580	155,096	(89,411)
Athletics	156,397	28,537		(127,860)
Interest on long-term debt	491,117		1,412	(489,705)
Unallocated depreciation & amortization	470,986			(470,986)
Total governmental activities	<u>\$ 7,518,070</u>	<u>\$ 114,478</u>	<u>\$ 779,715</u>	(6,623,877)
General revenues:				
Property taxes, levied for general purposes				1,310,044
Property taxes, levied for debt service				847,523
State sources				3,943,054
Investment revenue				73,639
Transfers from other districts				470,126
Miscellaneous				68,604
Total general revenue				<u>6,712,990</u>
Change in net assets				89,113
Net assets, beginning of year				<u>8,031,872</u>
Net assets, end of year				<u>\$ 8,120,985</u>

The accompanying notes are an integral part of the financial statements.

HARBOR BEACH COMMUNITY SCHOOLS
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2006

	<u>GENERAL FUND</u>	<u>DEBT RETIREMENT</u>	<u>CAPITAL PROJECTS FUND</u>	<u>OTHER NONMAJOR GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
<u>ASSETS</u>					
CURRENT ASSETS:					
Cash	\$ 732,447	\$ 323,312		\$ 130,304	\$ 1,186,063
Investments	724,472		\$ 600,610		1,325,082
Accounts receivable	-				-
Due from other funds	53,881		99,515	31,199	184,595
Due from other governmental units	878,338				878,338
TOTAL ASSETS	<u>\$ 2,389,138</u>	<u>\$ 323,312</u>	<u>\$ 700,125</u>	<u>\$ 161,503</u>	<u>\$ 3,574,078</u>
<u>LIABILITIES AND FUND BALANCE</u>					
LIABILITIES:					
Accounts payable	\$ 235,620		-	\$ 9,667	\$ 245,287
Benefits payable	100,345				100,345
Deferred Revenue	2,850				2,850
Due to other funds	130,714			53,881	184,595
Retirement payable	21,812				21,812
Salaries payable	143,698			-	143,698
Other accruals	6,553			-	6,553
TOTAL LIABILITIES	<u>641,592</u>	<u>-</u>	<u>-</u>	<u>63,548</u>	<u>705,140</u>
FUND BALANCE:					
Reserved for debt service		\$ 323,312			323,312
Unreserved:					
Designated for special projects	99,589		\$ 700,125		799,714
Undesignated	1,647,957			97,955	1,745,912
TOTAL FUND BALANCE	<u>1,747,546</u>	<u>323,312</u>	<u>700,125</u>	<u>97,955</u>	<u>2,868,938</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 2,389,138</u>	<u>\$ 323,312</u>	<u>\$ 700,125</u>	<u>\$ 161,503</u>	<u>\$ 3,574,078</u>

The accompanying notes are an integral part of the financial statements.

HARBOR BEACH COMMUNITY SCHOOLS
Reconciliation of the Governmental Funds Balance Sheet to the
Statement of Net Assets
June 30, 2006

Total Fund Balances - Governmental Funds	\$ 2,868,938
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds

 The cost of the capital assets is:

19,271,025

 Accumulated depreciation is:

(2,864,688)

Long term liabilities are not due and payable in the current period and are not reported in the funds

 Bonds payable:

(11,578,207)

 Deferred amount on bond refunding

504,762

 Accrued interest is not included as a liability in governmental funds; it is recorded when paid:

(82,345)

Balance of taxes receivable at 6/30/06 less allowance for doubtful accounts

1,500

Net Assets of Governmental Activities

\$ 8,120,985

The accompanying notes are an integral part of the financial statements.

HARBOR BEACH COMMUNITY SCHOOLS
Statement of Revenues, Expenditures, and Changes in Fund Balances -
Governmental Funds
For the Year Ended June 30, 2006

	GENERAL FUND	DEBT RETIREMENT	CAPITAL PROJECTS FUND	OTHER NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES					
Local sources	\$ 1,449,108	\$ 863,192	\$ 610	\$ 101,378	\$ 2,414,288
State sources	3,926,195	4,544		13,727	3,944,466
Federal sources	623,207			155,096	778,303
Transfers from other districts	470,126				470,126
TOTAL REVENUES	6,468,636	867,736	610	270,201	7,607,183
EXPENDITURES					
Instruction	3,836,099				3,836,099
Supporting services	2,344,383				2,344,383
Community services	-				-
Food services				312,087	312,087
Athletic services				156,397	156,397
Capital outlay			-	-	-
Debt service:					
Principal redemption		338,132		-	338,132
Interest and fiscal charges		491,546		-	491,546
TOTAL EXPENDITURES	6,180,482	829,678	-	468,484	7,478,644
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	288,154	38,058	610	(198,283)	128,539
OTHER FINANCING SOURCES (USES)					
Bond refunding activity					-
Fund transfers in			99,515	179,500	279,015
Fund transfers out	(279,015)				(279,015)
TOTAL OTHER FINANCING SOURCES (USES)	(279,015)	-	99,515	179,500	-
EXCESS OF REVENUES OVER EXPENDITURES & OTHER SOURCES (USES)	9,139	38,058	100,125	(18,783)	128,539
FUND BALANCE AT BEGINNING OF YEAR	1,738,407	285,254	600,000	116,738	2,740,399
FUND BALANCE AT END OF YEAR	\$ 1,747,546	\$ 323,312	\$ 700,125	\$ 97,955	\$ 2,868,938

The accompanying notes are an integral part of the financial statements.

HARBOR BEACH COMMUNITY SCHOOLS
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
June 30, 2006

Total net change in fund balances--governmental funds	\$ 128,539
---	------------

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of these assets are allocated over their useful lives as depreciation:

Depreciation expense	(445,748)
Capital outlay	92,999

Accrued interest on bonds is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid:

Accrued interest payable at the beginning of the year	82,774
Accrued interest payable at the end of the year	(82,345)

Repayments of principal on long-term debt is an expenditure in the governmental funds, but not in the statement of activities (where it is a reduction of liabilities)	338,132
--	---------

The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortization in the statement of activities. The effect of these differences in the treatment of long-term debt and related items is as follows:

Amortization of deferred amount on bond refunding	(25,238)
---	----------

Revenue is recorded on the accrual method in the statement of activities; in the governmental funds it is recorded on the modified accrual method and not considered available:

Accrued revenue at the beginning of the year	(1,500)
Accrued revenue at the end of the year	1,500

Change in net assets of governmental activities	<u><u>\$ 89,113</u></u>
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The accompanying notes are an integral part of the financial statements.

HARBOR BEACH COMMUNITY SCHOOLS
STATEMENT OF FIDUCIARY NET ASSETS
June 30, 2006

	<u>PRIVATE- PURPOSE TRUST</u>	<u>AGENCY FUNDS</u>
CURRENT ASSETS		
Cash	\$ 5,934	\$ 97,752
Investments	<u>6,468</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 12,402</u>	<u>\$ 97,752</u>
LIABILITIES		
Due to student organizations		<u>\$ 97,752</u>
TOTAL LIABILITIES		<u>\$ 97,752</u>
NET ASSETS		
Reserved for scholarships	<u>\$ 12,402</u>	
TOTAL NET ASSETS	<u>\$ 12,402</u>	

The accompanying notes are an integral part of the financial statements.

HARBOR BEACH COMMUNITY SCHOOLS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2006

	<u>PRIVATE- PURPOSE TRUST</u>
ADDITIONS	
Interest earnings	\$ 192
Dividends	261
Donations	<u>-</u>
Total additions:	<u>453</u>
DEDUCTIONS	
Scholarships awarded	100
Increase (decrease) in fair market value of investments	<u>325</u>
Total deductions	<u>425</u>
CHANGE IN NET ASSETS	<u>28</u>
NET ASSETS	
Beginning of year	<u>12,374</u>
End of year	<u><u>\$ 12,402</u></u>

The accompanying notes are an integral part of the financial statements.

HARBOR BEACH COMMUNITY SCHOOLS

Notes to Financial Statements For The Year Ended June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The basic financial statements of the Harbor Beach Community Schools have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

REPORTING ENTITY:

The Harbor Beach Community Schools (the "District") is governed by the Harbor Beach Community Schools Board of Education (the "Board"), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state, and federal government sources and must comply with all the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United States of America. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. In addition, the District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement No. 14 and 39.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS:

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. The government-wide financial statements categorize primary activities as either governmental or business type. All of the District's activities are classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenues but instead as general revenues.

The statement of activities reports both the gross and net cost of each of the District's functions. These functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, fines, permits, and charges, etc.) The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function.

Operating grants include operating-specific and discretionary (either operating or capital) grants.

HARBOR BEACH COMMUNITY SCHOOLS

Notes to Financial Statements For The Year Ended June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued):

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS, (Continued):

In the government-wide statement of net assets, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The District first utilizes restricted resources to finance qualifying activities.

The net costs (by function) are normally covered by general revenue (property taxes, state sources, intermediate district sources, interest income and other revenues.)

The District does not allocate indirect costs.

This government-wide focus is more on the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

GOVERNMENTAL FUNDS

Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use and balances of the school district's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The District reports the following major governmental funds:

The *General Fund* is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

The *Debt Service Fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The *Capital Projects Fund* accounts for the receipt of debt proceeds and the acquisition of fixed assets or construction of major capital projects.

The Capital Projects Fund includes capital project activities funded with bonds issued after May 1, 1994.

For these capital projects, the school district has complied with the applicable provisions of §1351a of the Revised School Code.

HARBOR BEACH COMMUNITY SCHOOLS

Notes to Financial Statements For The Year Ended June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued):

OTHER NON-MAJOR FUNDS

The *special revenue funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The District accounts for its food service and athletic activities in the special revenue funds.

Fiduciary funds account for assets held by the District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the District under the terms of a formal trust agreement. Fiduciary funds are not included in the government-wide statements.

The *private purpose trust fund* is accounted for using the accrual method of accounting. Nonexpendable trust funds account for assets where only the interest may be spent. These funds are not reported on the District's financial statements. The District's trust fund currently holds assets donated to the District.

The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. This fund is used to account for assets that the District holds for others in an agency capacity (primarily student activities).

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND BASIS OF PRESENTATION:

Accrual Method:

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Modified Accrual Method:

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, state and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

HARBOR BEACH COMMUNITY SCHOOLS

Notes to Financial Statements For The Year Ended June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued):

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND BASIS OF PRESENTATION, (Continued):

State Foundation Revenue:

The State of Michigan utilizes a foundation grant approach, which provides for a specific annual amount of revenue per student based on a statewide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2006 the foundation allowance was based on the pupil membership counts taken in February and September of 2005.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes that may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period and is funded through payments from October 2005 - August 2006. Thus, the unpaid portion at June 30th is reported as due from other governmental units. The local revenue is recognized as outlined in Note 1 Accounting for Property Taxes.

State Categorical Revenue:

The District also receives revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received that are not expended by the close of the fiscal year are recorded as deferred revenue.

Federal Revenue:

Expenditure-driven grants are recognized when the qualifying expenditures have been incurred and all other grant requirements have been met.

ASSETS, LIABILITIES AND EQUITY:

1. Cash and equivalents include amounts in demand deposits and certificates of deposit.

The District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and No. 40 *Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value and determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the districts intend to hold the investment until maturity.

HARBOR BEACH COMMUNITY SCHOOLS

Notes to Financial Statements For The Year Ended June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued):

ASSETS, LIABILITIES AND EQUITY, (Continued):

State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

2. Short-term Interfund Receivables/Payables.

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet.

3. Property Taxes.

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied and become a lien as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due dates are September 14 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

The District along with certain other governmental units is permitted by the Constitution of the State of Michigan of 1963 to levy combined taxes up to \$50 per \$1,000 of assessed valuation for general governmental services other than the payment of Debt Service Fund expenses if approved by a majority of the electors. The District must include certain tax levies of other governmental units located within the District, primarily the county, when determining the maximum millage of \$50 per \$1,000 of assessed valuation. For the year ended June 30, 2006, the District levied the following amounts per \$1,000 of assessed valuation:

<u>FUND</u>	<u>MILLS</u>
General Fund – Non Homestead	18.00
Debt Service Fund	3.95

HARBOR BEACH COMMUNITY SCHOOLS

Notes to Financial Statements For The Year Ended June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued):

ASSETS, LIABILITIES AND EQUITY, (Continued):

4. Capital Assets.

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings and additions	50 years
Furniture and other equipment	5 – 15 years

The District's capitalization policy is to capitalize individual amounts exceeding \$2,500. Group purchases are evaluated on a case-by-case basis.

5. Compensated Absences.

Each teacher is accorded a maximum of 100 compensated sick leave days. These sick days must be used during the school year. Any unused number of days is paid out at \$40 per day, with a maximum of \$480 per year. This is paid prior to June 30, therefore, no liability is recorded for accumulated compensated absences.

6. Unemployment Insurance.

The District reimburses the Bureau of Worker's & Unemployment Compensation (BW & UC) for the actual amount of unemployment benefits disbursed by the BW & UC on behalf of the District. Billings received for amounts paid by the through June 30 are accrued, if material.

7. Long-term obligations.

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net assets. Bond premiums and discounts, as well as issuance costs and the difference between the reacquisition price and the net carrying amount of the old debt, are deferred and amortized over the life of the bonds using the straight line method over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

HARBOR BEACH COMMUNITY SCHOOLS

Notes to Financial Statements For The Year Ended June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued):

ASSETS, LIABILITIES AND EQUITY, (Continued):

8. Fund Balance.

The unreserved fund balances for governmental funds represent the amount available for budgeting future operations. The reserved fund balances for governmental funds represent the amount that has been legally identified for specific purposes or indicates that a component of assets do not constitute "available spendable resources". The designated fund balances for governmental funds represent tentative plans for future use of financial resources.

9. Memorandum Only - Total Column.

The total column on the combined basic financial statements are captioned "memorandum only" to indicate that they are presented only to facilitate financial analysis and do not represent consolidated financial information. Data in these columns do not present financial position or results of operations in conformity with U.S. generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

10. Use of Estimates.

The process of preparing financial statements in conformity with U.S. generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

HARBOR BEACH COMMUNITY SCHOOLS

Notes to Financial Statements For The Year Ended June 30, 2006

NOTE 2 - STEWARDSHIP, COMPLIANCE & ACCOUNTABILITY:

Budgets are adopted on a basis consistent with U.S. generally accepted accounting principles. Annual appropriated budgets are adopted for the general, special revenue and debt service funds. All annual appropriations lapse at fiscal year end.

The District does not maintain a formalized encumbrance accounting system.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1st. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1st, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, are noted in the required supplementary information section.
4. The Superintendent is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, the School Board must approve these transfers and any revisions that alter the total expenditures of any fund.
5. Formal budgetary integration is employed as a management control device during the year for the general fund, special revenue and debt service fund.
6. The budget as presented, has been amended. Supplemental appropriations were made during the year with the last one approved prior to June 30th.
7. The budgeted transfers to other funds was exceeded by \$40,000. This caused total expenditures to exceed budgeted amounts by \$36,749, which is a violation of the Uniform Budgeting Act.

HARBOR BEACH COMMUNITY SCHOOLS

Notes to Financial Statements For The Year Ended June 30, 2006

NOTE 3 – DEPOSITS AND INVESTMENTS - CREDIT RISK:

As of June 30, 2006, the District had the following investments.

Investment Type	Fair value	Weighted Average Maturity (Years)	Standard & Poor's Rating	%
Private Purpose Trust Fund:				
Oppenheimer Core Bond Fund	\$6,468	0.0027	A	1%
General Fund:				
MILAF External Investment pool -MIMAX	724,472	0.0027	AAAm	54
Capital Projects Fund:				
MILAF External Investment pool -MICMS	600,610	0.0027	A	45
Total fair value	<u>\$1,331,550</u>			100.0%
Portfolio weighted average maturity		<u>0.0027</u>		

The District voluntarily invests certain excess funds in external pooled investment funds which included money market funds. One of the pooled investment funds utilized by the District is the Michigan Investment Liquid Asset Fund (MILAF). MILAF is an external pooled investment fund of "qualified" investments for Michigan school districts. MILAF is not regulated nor is it registered with the SEC. MILAF reports as of June 30, 2006, the fair value of the District's investments is the same as the value of the pool shares.

Interest rate risk. In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs).

Concentration of credit risk. The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2006, \$1,186,063 of the District's bank balance of \$1,467,669 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name. Included in the above deposit figures are bank money market deposits of \$843,265.

HARBOR BEACH COMMUNITY SCHOOLS

Notes to Financial Statements For The Year Ended June 30, 2006

NOTE 3 – DEPOSITS AND INVESTMENTS - CREDIT RISK, (Continued):

Custodial credit risk - investments. For an investment, this is the risk that, in the event of the failure of the counter party, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

Foreign currency risk. The District is not authorized to invest in investments which have this type of risk.

The above amounts as previously reported in Note 3:

Deposits - including fiduciary funds of \$103,686	\$ 1,289,749
Investments - including fiduciary funds of \$6,468	<u>1,331,550</u>
	<u><u>\$ 2,621,299</u></u>

The above amounts are reported in the financial statements as follows:

Cash - Private Purpose Trust Fund	\$ 5,934
Cash - Agency Fund	97,752
Cash - District wide	1,186,063
Investments - Private Purpose Trust Fund	6,468
Investments - District wide	<u>1,325,082</u>
	<u><u>\$ 2,621,299</u></u>

HARBOR BEACH COMMUNITY SCHOOLS

Notes to Financial Statements For The Year Ended June 30, 2006

NOTE 4 - LONG-TERM DEBT:

During the fiscal year ending June 30, 2005, the district refinanced \$9,345,000 of the 2001 bonds. The refinancing is expected to save the district approximately \$352,055 over the next 22 years.

Following is a summary of the various long-term debt of the school district:

1998 Durant Bonds	\$ 38,207
2001 School Building and Site Bonds	1,705,000
2005 Refunding Bonds	9,835,000
Less: deferred amount on bond refunding	<u>(504,762)</u>
Total long-term debt	<u>\$11,073,445</u>

DEBT SERVICE REQUIREMENTS:

The annual requirements to amortize long-term debt outstanding as of June 30, 2006 are as follows:

<u>YEAR ENDED JUNE 30,</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2007	\$ 358,280	\$ 489,013	\$ 847,293
2008	368,438	474,269	842,707
2009	383,601	459,743	843,344
2010	398,773	444,091	842,864
2011	425,638	432,620	858,258
2012	434,140	409,639	843,779
2013	454,337	392,241	846,578
2014	470,000	374,035	844,035
2015	490,000	354,060	844,060
2016	510,000	334,460	844,460
2017	530,000	312,785	842,785
2018	555,000	290,260	845,260
2019	575,000	266,673	841,673
2020	600,000	242,235	842,235
2021	630,000	216,735	846,735
2022	655,000	189,960	844,960
2023	685,000	162,122	847,122
2024	715,000	133,010	848,010
2025	745,000	102,623	847,623
2026	780,000	70,587	850,587
2027	<u>815,000</u>	<u>36,267</u>	<u>851,267</u>
Total	11,578,207	6,187,428	17,765,635
Deferred amount on bond refunding	<u>(504,762)</u>	<u>0</u>	<u>(504,762)</u>
Total	<u>\$11,073,445</u>	<u>\$6,187,428</u>	<u>\$17,260,873</u>

HARBOR BEACH COMMUNITY SCHOOLS

Notes to Financial Statements For The Year Ended June 30, 2006

NOTE 4 - LONG-TERM DEBT, (Continued):

An amount of \$323,312 is available in the debt service fund to service the general obligation debt.

CHANGES IN LONG-TERM DEBT:

Following is a summary of long-term debt transactions of the district for the year ended June 30, 2006:

	<u>GENERAL OBLIGATION</u>
Long-term debt - July 1, 2005	\$11,386,339
2001 School Bonds Paid	(295,000)
Durant Bonds Paid	(3,132)
2005 Refunding Bonds Paid	(40,000)
Amortization of deferred amount on bond refunding	<u>25,238</u>
Total	<u>\$11,073,445</u>

Interest expense (all funds) for the year ended June 30, 2006 was \$491,117.

NOTE 5 - EMPLOYEE RETIREMENT SYSTEM-DEFINED BENEFIT PLAN:

Plan Description – The District contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a cost sharing multiple-employer state-wide defined benefit public employee retirement plan governed by the State of Michigan. The MPERS provides retirement benefits and postretirement benefits for health, dental and vision for substantially all employees of the District. The MPERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, P.O. Box 30171, Lansing, Michigan, 48909-7671 or by calling (800) 381-5111.

Funding Policy – Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; and 4.3% of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Actuarial rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

HARBOR BEACH COMMUNITY SCHOOLS

Notes to Financial Statements For The Year Ended June 30, 2006

NOTE 5 - EMPLOYEE RETIREMENT SYSTEM-DEFINED BENEFIT PLAN, (Continued):

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rate for the year ended June 30, 2005 was 14.87% through September 2005 and 16.34% for October 1, 2005 through June 30, 2006. The contribution requirements of plan members and the District are established and may be amended by the MPSERS Board of Trustees. The District contributions to MPSERS for the year ended June 30, 2006, 2005, and 2004 were \$551,957, \$507,793, and \$459,786, respectively, and were equal to the required contribution for each year.

The District is not responsible for the payment of retirement benefits, which is the responsibility of the State of Michigan.

Other post-employment benefits – Also within the MPSERS system, retirees have the option of health coverage, which is funded on a cash disbursement basis by the employers. The MPSERS has contracted to provide the comprehensive group medical, hearing, dental and vision coverages for retirees and beneficiaries. A significant portion of the premium is paid by the MPSERS with the balance deducted from the monthly pension.

NOTE 6 - RISK MANAGEMENT:

The District is exposed to risk of loss related to injuries to employees. The District participates in a pool of educational institutions within the State of Michigan for self-insuring workers' disability compensation. The pool is considered a public entity risk pool. The District pays quarterly premiums to the pool for the insurance coverage. In the event the pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the pool's policy year may be subject to special assessment to make up the deficiency. The pool maintains reinsurance for claims in excess of \$500,000 for each occurrence with the overall maximum coverage being unlimited. The District has not been informed of any special assessments being required.

The District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance, torts, theft of, damage to and destruction of assets and errors & omissions.

NOTE 7 – INTERFUND RECEIVABLES AND PAYABLES:

Interfund receivable and payable balances at June 30, 2006 are as follows:

	<u>INTERFUND RECEIVABLE</u>	<u>INTERFUND PAYABLE</u>
General Fund	\$ 53,881	\$130,714
Capital Project Fund	99,515	
Special Revenue Fund	<u>31,199</u>	<u>53,881</u>
Total	<u>\$184,595</u>	<u>\$184,595</u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

HARBOR BEACH COMMUNITY SCHOOLS

Notes to Financial Statements For The Year Ended June 30, 2006

NOTE 8 – DESIGNATED FUND BALANCE:

The fund balance in the General Fund has been designated by the School Board at June 30, 2006 for the following purposes:

Technology Fund	\$40,000
Curriculum Revisions/Math	23,449
Curriculum Revisions/LA	<u>36,140</u>
Total	<u>\$99,589</u>

NOTE 9 – SECTION 125 CAFETERIA PLAN:

The School District established a Section 125 Cafeteria Plan through AFLAC Administrative Services. All employees who meet the plan criteria are eligible to participate beginning with the 2002-2003 school year.

NOTE 10 – TRANSFERS:

The general fund transferred \$139,500 to the athletic fund, \$40,000 to the hot lunch fund and \$99,515 to the capital project fund during the current fiscal year. The transfer to the athletic fund was to subsidize operations. The transfer to the hot lunch fund was to provide operating capital. The transfer to the capital projects fund was to set aside funds for a running track project.

HARBOR BEACH COMMUNITY SCHOOLS**Notes to Financial Statements
For The Year Ended June 30, 2006****NOTE 11 – CAPITAL ASSETS:**

A summary of changes in the District's capital assets follows:

	BALANCE JULY 1, 2005	ADDITIONS	DELETIONS	BALANCE JUNE 30, 2006
Assets not being depreciated - land	\$ 57,065			\$ 57,065
Other capital assets:				
Buildings and additions	17,640,146			17,640,146
Technology	364,518			364,518
Athletic equipment	313,590	\$10,000		323,590
General equipment	284,004	82,999		367,003
Transportation equipment	535,688	-	(16,985)	518,703
Subtotal	19,137,946	92,999	(16,985)	19,213,960
Total accumulated depreciation	(2,435,925)	(445,748)	16,985	(2,864,688)
Net other capital assets	16,702,021	(352,749)	NONE	16,349,272
Net capital assets	\$16,759,086	\$(352,749)	NONE	\$16,406,337

Depreciation expense was charged as unallocated to the governmental activities in the amount of \$445,748.

REQUIRED SUPPLEMENTARY INFORMATION

HARBOR BEACH COMMUNITY SCHOOLS
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2006

	<u>BUDGET</u>			VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE)
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>ACTUAL</u>	
REVENUES:				
Local sources	\$ 37,000	\$ 1,722,727	\$ 1,449,108	\$ (273,619)
State sources	5,253,362	3,892,063	3,926,195	34,132
Federal sources	297,450	274,809	623,207	348,398
Transfers from other districts	405,432	533,149	470,126	(63,023)
TOTAL REVENUES	<u>5,993,244</u>	<u>6,422,748</u>	<u>6,468,636</u>	<u>45,888</u>
EXPENDITURES:				
Instruction	3,777,466	3,831,729	3,836,099	(4,370)
Supporting services	2,076,278	2,352,004	2,344,383	7,621
Community services		-	-	-
TOTAL EXPENDITURES	<u>5,853,744</u>	<u>6,183,733</u>	<u>6,180,482</u>	<u>3,251</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>139,500</u>	<u>239,015</u>	<u>288,154</u>	<u>49,139</u>
OTHER FINANCING SOURCES (USES):				
Transfer to Other Funds	<u>(139,500)</u>	<u>(239,015)</u>	<u>(279,015)</u>	<u>(40,000)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(139,500)</u>	<u>(239,015)</u>	<u>(279,015)</u>	<u>(40,000)</u>
EXCESS OF REVENUES OVER EXPENDITURES & OTHER SOURCES (USES)	<u>-</u>	<u>-</u>	<u>9,139</u>	<u>9,139</u>
FUND BALANCE - BEGINNING OF YEAR	<u>1,738,407</u>	<u>1,738,407</u>	<u>1,738,407</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ 1,738,407</u>	<u>\$ 1,738,407</u>	<u>\$ 1,747,546</u>	<u>\$ 9,139</u>

ADDITIONAL INFORMATION

HARBOR BEACH COMMUNITY SCHOOLS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUND TYPES
June 30, 2006

	<u>GOVERNMENTAL FUND TYPES</u>	<u>TOTAL</u>
	<u>SPECIAL REVENUE</u>	<u>2006</u>
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash	\$ 130,304	\$ 130,304
Due from other funds	31,199	31,199
<u>TOTAL ASSETS</u>	<u>\$ 161,503</u>	<u>\$ 161,503</u>
 <u>LIABILITIES AND FUND BALANCE</u>		
LIABILITIES:		
Accounts payable	\$ 9,667	\$ 9,667
Salaries payable	-	-
Due to other funds	53,881	53,881
Accrued Liabilities	-	-
TOTAL LIABILITIES	<u>63,548</u>	<u>63,548</u>
FUND BALANCE:		
Unreserved	<u>97,955</u>	<u>97,955</u>
TOTAL FUND BALANCE	<u>97,955</u>	<u>97,955</u>
<u>TOTAL LIABILITIES & FUND BALANCE</u>	<u>\$ 161,503</u>	<u>\$ 161,503</u>

HARBOR BEACH COMMUNITY SCHOOLS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE -
NONMAJOR GOVERNMENTAL FUND TYPES
YEAR ENDED JUNE 30, 2006

	<u>GOVERNMENTAL FUND TYPES</u>	<u>TOTAL</u>
	<u>SPECIAL REVENUE</u>	<u>2006</u>
REVENUES:		
Local sources		
Admissions	\$ 28,537	\$ 28,537
Meals	59,806	59,806
A la carte	7,477	7,477
Vending machines	297	297
Interest	5,261	5,261
Miscellaneous	-	-
Total local sources	<u>101,378</u>	<u>101,378</u>
State sources		
State aid	<u>13,727</u>	<u>13,727</u>
Federal sources		
National School Lunch Program	140,237	140,237
USDA Commodities	<u>14,859</u>	<u>14,859</u>
Total federal sources	<u>155,096</u>	<u>155,096</u>
TOTAL REVENUES	<u>270,201</u>	<u>270,201</u>
EXPENDITURES:		
Food services	312,087	312,087
Athletics	156,397	156,397
Capital outlay		-
Debt retirement:		
Principal repayment		-
Interest and other fiscal charges		-
TOTAL EXPENDITURES	<u>468,484</u>	<u>468,484</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(198,283)</u>	<u>(198,283)</u>
OTHER FINANCING SOURCES (USES):		
Fund transfers in	<u>179,500</u>	<u>179,500</u>
TOTAL OTHER FINANCING SOURCES (USES)	179,500	179,500
EXCESS OF REVENUES OVER EXPENDITURES & OTHER SOURCES (USES)	<u>(18,783)</u>	<u>(18,783)</u>
FUND BALANCE - BEGINNING OF YEAR	<u>116,738</u>	<u>116,738</u>
FUND BALANCE - END OF YEAR	<u>\$ 97,955</u>	<u>\$ 97,955</u>

HARBOR BEACH COMMUNITY SCHOOLS
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL (GAAP BASIS) -
GENERAL AND SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	GENERAL FUND		VARIANCE
	BUDGET	ACTUAL	FAVORABLE (UNFAVORABLE)
REVENUES			
Local sources	\$ 1,722,727	\$ 1,449,108	\$ (273,619)
State sources	3,892,063	3,926,195	34,132
Federal sources	274,809	623,207	348,398
Other transactions:			
Payments received from other school districts	533,149	470,126	(63,023)
TOTAL REVENUES	6,422,748	6,468,636	45,888
EXPENDITURES			
Instruction	3,831,729	3,836,099	(4,370)
Supporting services	2,352,004	2,344,383	7,621
Community services	-	-	-
Food services			-
Athletic services			-
Debt service:			
Principal redemption			
Interest and fiscal charges	-	-	-
TOTAL EXPENDITURES	6,183,733	6,180,482	3,251
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	239,015	288,154	49,139
OTHER FINANCING SOURCES (USES):			
Fund transfers in			
Fund transfers out	(239,015)	(279,015)	(40,000)
TOTAL OTHER FINANCING SOURCES (USES)	(239,015)	(279,015)	(40,000)
EXCESS (DEFICIENCY) OR REVENUES OVER EXPENDITURES AND OTHER SOURCES (USES)	\$ -	9,139	\$ 9,139
FUND BALANCE - BEGINNING OF YEAR		1,738,407	
FUND BALANCE - END OF YEAR		\$ 1,747,546	

SPECIAL REVENUE FUND

BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
\$ 104,275	\$ 101,378	\$ (2,897)
13,500	13,727	227
148,640	155,096	6,456
<u>266,415</u>	<u>270,201</u>	<u>3,786</u>
		-
		-
		-
290,847	312,087	(21,240)
169,500	156,397	13,103
		-
<u>460,347</u>	<u>468,484</u>	<u>(8,137)</u>
<u>(193,932)</u>	<u>(198,283)</u>	<u>(4,351)</u>
193,932	179,500	(14,432)
<u>193,932</u>	<u>179,500</u>	<u>(14,432)</u>
<u>\$ -</u>	<u>(18,783)</u>	<u>\$ (18,783)</u>
	<u>116,738</u>	
	<u>\$ 97,955</u>	

HARBOR BEACH COMMUNITY SCHOOLS
GENERAL FUND
SCHEDULE OF REVENUES COMPARED TO BUDGET
FOR THE YEAR ENDED JUNE 30, 2006

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
LOCAL SOURCES:			
Property taxes	\$ 1,310,047	\$ 1,310,044	\$ (3)
Tuition - driver education	-	-	-
Transportation	18,361	18,361	-
Earnings on investments	46,998	52,709	5,711
Grants and donations	505	50,505	50,000
Other local revenues	346,816	17,489	(329,327)
Total Local Sources	<u>1,722,727</u>	<u>1,449,108</u>	<u>(273,619)</u>
STATE SOURCES:			
State aid	3,495,825	3,528,712	32,887
Durant settlement	6,471	6,471	-
Special education	160,652	168,506	7,854
Drivers education	-	-	-
Other state sources:			-
At Risk	225,491	222,506	(2,985)
Other	3,624	-	(3,624)
Total State Sources	<u>3,892,063</u>	<u>3,926,195</u>	<u>34,132</u>
FEDERAL SOURCES:			
Title I	192,607	192,607	-
Title V	4,778	4,778	-
Title II	70,602	70,169	(433)
Transition	-	-	-
RUSDLT		335,809	335,809
Other	6,822	19,844	13,022
Total Federal Sources	<u>274,809</u>	<u>623,207</u>	<u>348,398</u>
OTHER TRANSACTIONS:			
Incoming Transfers:			
Tuition	41,900	41,900	-
Transportation	10,152	10,152	-
Special education	319,196	319,196	-
Vocational education	11,697	11,697	-
Gifted and talented	-	-	-
Medicaid services coordination	18,224	18,224	-
Other	31,703	18,680	(13,023)
Sale of assets	100,277	50,277	(50,000)
Total Other Transactions	<u>533,149</u>	<u>470,126</u>	<u>(63,023)</u>
TOTAL REVENUES AND OTHER TRANSACTIONS	<u>\$ 6,422,748</u>	<u>\$ 6,468,636</u>	<u>\$ 45,888</u>

HARBOR BEACH COMMUNITY SCHOOLS
GENERAL FUND
SCHEDULE OF EXPENDITURES COMPARED TO BUDGET
FOR THE YEAR ENDED JUNE 30, 2006

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
INSTRUCTION:			
BASIC PROGRAMS:			
ELEMENTARY			
Professional Salaries	\$ 479,650	\$ 479,650	-
Non-Professional Salaries	43,786	43,786	-
Insurance Benefits	115,150	115,150	-
Severance Pay	25,000	25,000	-
FICA	122,376	122,376	-
Purchased Services	7,290	7,290	-
Supplies	11,814	11,814	-
Capital Outlay	-	-	-
Total Elementary	<u>805,066</u>	<u>805,066</u>	<u>-</u>
MIDDLE SCHOOL			
Professional Salaries	457,513	457,513	-
Non-Professional Salaries	3,505	3,505	-
Insurance Benefits	147,871	147,871	-
Severance Pay	-	-	-
FICA	107,769	107,769	-
Purchased Services	7,551	7,551	-
Supplies	44,866	44,866	-
Capital Outlay	88	88	-
Miscellaneous Other Expenses	922	922	-
Total Middle School	<u>770,085</u>	<u>770,085</u>	<u>-</u>
SECONDARY			
Professional Salaries	620,930	620,930	-
Non-Professional Salaries	45,244	45,244	-
Insurance Benefits	138,485	138,485	-
Severance Pay	50,000	50,000	-
FICA	149,897	149,897	-
Purchased Services	75,604	80,604	\$ (5,000)
Supplies	45,757	45,127	630
Capital Outlay	6,463	6,463	-
Miscellaneous Other Expenses	1,181	1,181	-
Total Secondary	<u>1,133,561</u>	<u>1,137,931</u>	<u>(4,370)</u>

HARBOR BEACH COMMUNITY SCHOOLS
GENERAL FUND
SCHEDULE OF EXPENDITURES COMPARED TO BUDGET
FOR THE YEAR ENDED JUNE 30, 2006

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
INSTRUCTION, (Continued):			
BASIC PROGRAMS, (Continued):			
BASIC PROGRAMS/ ADDED NEEDS:			
Special Education:			
Professional Salaries	\$ 328,674	\$ 328,674	\$ -
Non-Professional Salaries	36,461	36,461	-
Insurance Benefits	67,704	67,704	-
FICA	85,979	85,979	-
Purchased Services	43	43	-
Supplies	9,953	9,953	-
At Risk			
Professional Salaries	139,825	139,825	-
Non-Professional Salaries	14,327	14,327	-
Insurance Benefits	23,485	23,485	-
FICA	36,033	36,033	-
Purchased Services	8,837	8,837	-
Supplies	-	-	-
Title I			
Professional Salaries	96,870	96,870	-
Non-Professional Salaries	36,584	36,584	-
Insurance Benefits	21,838	21,838	-
FICA	31,315	31,315	-
Purchased Services	6,000	6,000	-
Supplies	-	-	-
Vocational education			
Professional Salaries	62,339	62,339	-
Insurance Benefits	15,222	15,222	-
FICA	14,395	14,395	-
Purchased Services	4,072	4,072	-
Supplies	4,194	4,194	-
Title VI			
Supplies	5,014	5,014	-

HARBOR BEACH COMMUNITY SCHOOLS
GENERAL FUND
SCHEDULE OF EXPENDITURES COMPARED TO BUDGET
FOR THE YEAR ENDED JUNE 30, 2006

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
INSTRUCTION, (Continued):			
BASIC PROGRAMS/ADDED NEEDS, (Continued):			
Tech Literacy			
Non-Professional Salaries	\$ 660	\$ 660	-
FICA	158	158	-
Supplies	2,687	2,687	-
Purchased Services	180	180	-
Title II			
Professional Salaries	49,244	49,244	-
Insurance Benefits	9,111	9,111	-
FICA	11,813	11,813	-
Purchased Services	-	-	-
Capital Outlay	-	-	-
Total Added Needs	<u>1,123,017</u>	<u>1,123,017</u>	<u>-</u>
TOTAL INSTRUCTION	<u>3,831,729</u>	<u>3,836,099</u>	<u>\$ (4,370)</u>
SUPPORTING SERVICES:			
GUIDANCE SERVICES:			
Professional Salaries	-	-	-
Non-Professional Salaries	11,825	11,825	-
Insurance Benefits	1,179	1,179	-
FICA	2,578	2,578	-
Purchased Services	-	-	-
Supplies	-	-	-
Capital Outlay	-	-	-
Total Guidance Services	<u>15,582</u>	<u>15,582</u>	<u>-</u>

HARBOR BEACH COMMUNITY SCHOOLS
GENERAL FUND
SCHEDULE OF EXPENDITURES COMPARED TO BUDGET
FOR THE YEAR ENDED JUNE 30, 2006

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
SUPPORTING SERVICES, (Continued):			
SCHOOL ADMINISTRATION:			
Professional Salaries	\$ 237,254	\$ 237,254	-
Non-Professional Salaries	71,582	71,582	-
Insurance Benefits	42,607	42,607	-
FICA	72,703	72,703	-
Purchased Services	6,678	6,678	-
Supplies	16,032	16,032	-
Capital Outlay	369	369	-
Miscellaneous Other Expenses	304	304	-
Total School Administration	<u>447,529</u>	<u>447,529</u>	<u>-</u>
BOARD OF EDUCATION:			
Professional Salaries	7,840	7,840	-
Purchased Services	35,117	35,117	-
Supplies	5,104	5,104	-
Miscellaneous Other Expenses	31,616	31,616	-
Total Board of Education	<u>79,677</u>	<u>79,677</u>	<u>-</u>
EXECUTIVE ADMINISTRATION			
Professional Salaries	140,305	143,325	-
Non-Professional Salaries	57,073	57,073	-
Insurance Benefits	30,444	30,444	-
FICA	42,222	42,222	-
Purchased Services	8,196	5,881	\$ 2,315
Supplies	(2,177)	134	(2,311)
Capital Outlay	87,028	87,028	-
RUSDLT Capital Outlay	332,951	335,809	(2,858)
Miscellaneous Other Expenses	7,352	7,352	-
Total Executive Administration	<u>703,394</u>	<u>709,268</u>	<u>(5,874)</u>
FISCAL SERVICES:			
Non-Professional Salaries	63,741	63,741	-
Insurance Benefits	15,702	15,702	-
FICA	14,678	14,678	-
Purchased Services	439	439	-
Supplies	1,026	1,026	-
Miscellaneous Other Expenses	138	138	-
Total Fiscal Services	<u>95,724</u>	<u>95,724</u>	<u>-</u>

HARBOR BEACH COMMUNITY SCHOOLS
GENERAL FUND
SCHEDULE OF EXPENDITURES COMPARED TO BUDGET
FOR THE YEAR ENDED JUNE 30, 2006

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
SUPPORTING SERVICES, (Continued):			
OPERATION & MAINTENANCE:			
Non-Professional Salaries	\$ 155,616	\$ 155,616	-
Insurance Benefits	76,880	76,880	-
FICA	36,638	36,638	-
Purchased Services	275,775	262,712	\$ 13,063
Supplies	33,575	33,180	395
Capital Outlay	69,635	69,635	-
Total Operation & Maintenance	<u>648,119</u>	<u>634,661</u>	<u>13,458</u>
PUPIL TRANSPORTATION:			
Non-Professional Salaries	161,111	161,111	-
Insurance Benefits	45,426	45,426	-
FICA	38,203	38,203	-
Purchased Services	9,071	9,071	-
Supplies	60,257	60,220	37
Capital Outlay	-	-	-
Total Pupil Transportation	<u>314,068</u>	<u>314,031</u>	<u>37</u>
OTHER BUSINESS SERVICES:			
Insurance Benefits	-	-	-
FICA	16,311	16,311	-
Purchased Services	31,600	31,600	-
Miscellaneous Other Expenses	-	-	-
Total Other Business Services	<u>47,911</u>	<u>47,911</u>	<u>-</u>
TOTAL SUPPORTING SERVICES	<u>2,352,004</u>	<u>2,344,383</u>	<u>7,621</u>
COMMUNITY SERVICE			
Drivers Education	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL COMMUNITY SERVICE			
TOTAL EXPENDITURES	<u>6,183,733</u>	<u>6,180,482</u>	<u>3,251</u>
OUTGOING TRANSFERS AND OTHER:			
Other transfers	239,015	279,015	(40,000)
Contingency Fund	-	-	-
TOTAL OUTGOING TRANSFERS AND OTHER	<u>239,015</u>	<u>279,015</u>	<u>(40,000)</u>
TOTAL EXPENDITURES AND TRANSFERS	<u>\$ 6,422,748</u>	<u>\$ 6,459,497</u>	<u>\$ (36,749)</u>

HARBOR BEACH COMMUNITY SCHOOLS
SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
June 30, 2006

	<u>FOOD SERVICES</u>	<u>ATHLETIC ACTIVITIES</u>	<u>TOTAL</u>
<u>ASSETS</u>			
Cash	\$ 97,105	\$ 33,199	\$ 130,304
Due from other funds	<u>-</u>	<u>31,199</u>	<u>31,199</u>
<i>TOTAL ASSETS</i>	<u><u>\$ 97,105</u></u>	<u><u>\$ 64,398</u></u>	<u><u>\$ 161,503</u></u>
 <u>LIABILITIES & FUND EQUITY</u>			
LIABILITIES:			
Accounts payable	\$ 600	\$ 9,067	\$ 9,667
Salaries payable	-	-	-
Due to other funds	53,881	-	53,881
Accrued Liabilities	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL LIABILITIES	<u>54,481</u>	<u>9,067</u>	<u>63,548</u>
 FUND EQUITY:			
Fund Balance	<u>42,624</u>	<u>55,331</u>	<u>97,955</u>
TOTAL FUND BALANCE	<u>42,624</u>	<u>55,331</u>	<u>97,955</u>
 <i>TOTAL LIABILITIES & FUND BALANCE</i>	<u><u>\$ 97,105</u></u>	<u><u>\$ 64,398</u></u>	<u><u>\$ 161,503</u></u>

HARBOR BEACH COMMUNITY SCHOOLS
SPECIAL REVENUE FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2006

	<u>FOOD SERVICES</u>	<u>ATHLETIC ACTIVITIES</u>	<u>TOTAL</u>
REVENUES:			
Local sources:			
Admissions		\$ 28,537	\$ 28,537
Meals	\$ 59,806		59,806
A la carte	7,477		7,477
Vending machines	297		297
Miscellaneous		-	-
Interest	5,261		5,261
Total local sources	<u>72,841</u>	<u>28,537</u>	<u>101,378</u>
State sources - State Aid	<u>13,727</u>		<u>13,727</u>
Federal sources:			
National School Lunch program	140,237		140,237
USDA Commodities	14,859		14,859
Total federal sources	<u>155,096</u>	<u>-</u>	<u>155,096</u>
TOTAL REVENUES	<u>241,664</u>	<u>28,537</u>	<u>270,201</u>
EXPENDITURES:			
Professional Salaries		80,588	80,588
Non-Professional Salaries	88,502	-	88,502
Insurance Benefits	13,585		13,585
FICA	20,092	18,204	38,296
Purchased Services	36,637	40,278	76,915
Supplies	150,560	1,651	152,211
Capital Outlay	2,711	12,196	14,907
Miscellaneous Other Expenses	<u>-</u>	<u>3,480</u>	<u>3,480</u>
TOTAL EXPENDITURES	312,087	156,397	468,484
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(70,423)</u>	<u>(127,860)</u>	<u>(198,283)</u>
OTHER FINANCING SOURCES (USES):			
Fund transfers in	40,000	139,500	179,500
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER SOURCES (USES)	<u>(30,423)</u>	<u>11,640</u>	<u>(18,783)</u>
FUND BALANCE AT BEGINNING OF YEAR	<u>73,047</u>	<u>43,691</u>	<u>116,738</u>
FUND BALANCE AT END OF YEAR	<u><u>\$ 42,624</u></u>	<u><u>\$ 55,331</u></u>	<u><u>\$ 97,955</u></u>

HARBOR BEACH COMMUNITY SCHOOLS
FOOD SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2006

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
REVENUES:			
Local sources:			
Meals	\$ 60,420	\$ 59,806	\$ (614)
A la carte	9,680	7,477	(2,203)
Vending machines	675	297	(378)
Interest	3,500	5,261	1,761
Total local sources	<u>74,275</u>	<u>72,841</u>	<u>(1,434)</u>
State sources-State Aid	<u>13,500</u>	<u>13,727</u>	<u>227</u>
Federal sources:			
National School Lunch program	138,000	140,237	2,237
USDA Commodities	10,640	14,859	4,219
Total federal sources	<u>148,640</u>	<u>155,096</u>	<u>6,456</u>
TOTAL REVENUES	<u>236,415</u>	<u>241,664</u>	<u>5,249</u>
EXPENDITURES:			
Non-Professional Salaries	80,000	88,502	(8,502)
Insurance Benefits	21,275	13,585	7,690
FICA	19,192	20,092	(900)
Purchased Services	36,125	36,637	(512)
Supplies	132,155	150,560	(18,405)
Capital Outlay	2,100	2,711	(611)
Miscellaneous Other Expenses	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL EXPENDITURES	<u>290,847</u>	<u>312,087</u>	<u>(21,240)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(54,432)</u>	<u>(70,423)</u>	<u>(15,991)</u>
OTHER FINANCING SOURCES (USES):			
Fund transfers in	<u>54,432</u>	<u>40,000</u>	<u>(14,432)</u>
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER SOURCES (USES)	<u>-</u>	<u>(30,423)</u>	<u>(30,423)</u>
FUND BALANCE AT BEGINNING OF YEAR	<u>73,047</u>	<u>73,047</u>	
FUND BALANCE AT END OF YEAR	<u>\$ 73,047</u>	<u>\$ 42,624</u>	<u>\$ (30,423)</u>

HARBOR BEACH COMMUNITY SCHOOLS
ATHLETIC FUND
SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2006

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
REVENUES:			
Admissions	\$ 30,000	\$ 28,537	\$ (1,463)
Donation	-	-	-
TOTAL REVENUES	<u>30,000</u>	<u>28,537</u>	<u>(1,463)</u>
EXPENDITURES:			
Professional Salaries	80,000	80,588	(588)
Non-Professional Salaries	14,654	-	14,654
FICA	22,708	18,204	4,504
Purchased Services	36,800	40,278	(3,478)
Supplies	4,100	1,651	2,449
Capital Outlay	8,238	12,196	(3,958)
Miscellaneous Other Expenses	<u>3,000</u>	<u>3,480</u>	<u>(480)</u>
TOTAL EXPENDITURES	169,500	156,397	13,103
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(139,500)</u>	<u>(127,860)</u>	<u>11,640</u>
OTHER FINANCING SOURCES (USES):			
Fund transfers in	139,500	139,500	-
EXCESS REVENUES OVER EXPENDITURES AND OTHER SOURCES (USES)	<u>-</u>	<u>11,640</u>	<u>11,640</u>
FUND BALANCE AT BEGINNING OF YEAR	<u>43,691</u>	<u>43,691</u>	
FUND BALANCE AT END OF YEAR	<u>\$ 43,691</u>	<u>\$ 55,331</u>	<u>\$ 11,640</u>

**CAPITAL PROJECT FUND
COMBINING BALANCE SHEET
June 30, 2006**

	CAPITAL PROJECT REPLACEMENT & IMPROVEMENT FUND	TOTAL 2006
<u>ASSETS</u>		
Cash	\$ 600,610	\$ 600,610
Due from other funds	99,515	99,515
	\$ 700,125	\$ 700,125
<u>LIABILITIES AND FUND BALANCE</u>		
LIABILITIES:		
Accounts payable		\$ -
TOTAL LIABILITIES	-	-
FUND BALANCE:		
Unreserved	\$ 700,125	700,125
TOTAL FUND BALANCE	700,125	700,125
TOTAL LIABILITIES & FUND BALANCE	\$ 700,125	\$ 700,125

HARBOR BEACH COMMUNITY SCHOOLS
CAPITAL PROJECT FUND
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2006

	<u>CAPITAL PROJECT REPLACEMENT & IMPROVEMENT FUND</u>	<u>TOTAL 2006</u>
REVENUES		
Interest income	\$ 610	\$ 610
TOTAL REVENUES	<u>610</u>	<u>610</u>
EXPENDITURES		
Capital outlay	<u>-</u>	<u>-</u>
TOTAL EXPENDITURES		-
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>610</u>	<u>610</u>
OTHER FINANCING SOURCES (USES)		
Fund transfers in	<u>99,515</u>	<u>99,515</u>
TOTAL OTHER FINANCING SOURCES (USES)	99,515	99,515
EXCESS OF REVENUES OVER EXPENDITURES & OTHER SOURCES (USES)	<u>100,125</u>	<u>100,125</u>
FUND BALANCE AT BEGINNING OF YEAR	<u>600,000</u>	<u>600,000</u>
FUND BALANCE AT END OF YEAR	<u><u>\$ 700,125</u></u>	<u><u>\$ 700,125</u></u>

HARBOR BEACH COMMUNITY SCHOOLS
DEBT SERVICE FUNDS
COMBINING BALANCE SHEET
June 30, 2006

	<u>2001 SCHOOL BUILDING AND SITE BONDS</u>	<u>2005 REFUNDED BONDS</u>	<u>DURANT BONDS</u>	<u>TOTAL 2006</u>
<u>ASSETS</u>				
Cash and investments	<u>\$ 50,433</u>	<u>\$ 272,879</u>	<u>\$ -</u>	<u>\$ 323,312</u>
	<u><u>\$ 50,433</u></u>	<u><u>\$ 272,879</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 323,312</u></u>
<u>FUND BALANCES</u>				
Fund balances	<u><u>\$ 50,433</u></u>	<u><u>\$ 272,879</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 323,312</u></u>

HARBOR BEACH COMMUNITY SCHOOLS
DEBT SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2006

	2001 SCHOOL BUILDING AND SITE BONDS	2005 REFUNDED BONDS	DURANT BONDS	TOTAL 2006
REVENUES:				
Local Sources:				
Property taxes	\$ 353,607	\$ 493,916	-	\$ 847,523
Interest	2,676	12,993		15,669
Total Local Sources	356,283	506,909	-	863,192
State sources			\$ 4,544	4,544
TOTAL REVENUES	356,283	506,909	4,544	867,736
EXPENDITURES:				
Debt Service:				
Principal repayment	295,000	40,000	3,132	338,132
Interest and other fiscal charges	83,724	406,410	1,412	491,546
TOTAL EXPENDITURES	378,724	446,410	4,544	829,678
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(22,441)	60,499	-	38,058
OTHER FINANCING SOURCES (USES):				
Operating transfers in	-	212,380		212,380
Operating transfers out	(212,380)			(212,380)
TOTAL OTHER FINANCING SOURCES (USES):	(212,380)	212,380	-	-
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER SOURCES (USES)	(234,821)	272,879	-	38,058
FUND BALANCES:				
Beginning of Year	285,254	-	-	285,254
End of Year	\$ 50,433	\$ 272,879	\$ -	\$ 323,312

HARBOR BEACH COMMUNITY SCHOOLS
PRIVATE-PURPOSE TRUST AND AGENCY FUNDS
COMBINING BALANCE SHEET
FOR THE YEAR ENDED JUNE 30, 2006

		<u>TRUST FUNDS</u>		<u>AGENCY FUND</u>	<u>TOTAL</u>
		<u>ANNA BELLE SCRANTON SCHOLARSHIP</u>	<u>DEER ACRES SCHOLARSHIP</u>	<u>STUDENT ACTIVITIES</u>	<u>2006</u>
<u>ASSETS</u>					
Cash		\$ 525	\$ 5,409	\$ 97,752	\$ 103,686
Investments		6,468			6,468
Total assets		<u>\$ 6,993</u>	<u>\$ 5,409</u>	<u>\$ 97,752</u>	<u>\$ 110,154</u>
 <u>LIABILITIES AND NET ASSETS</u>					
LIABILITIES:					
Due to student and other groups				\$ 97,752	\$ 97,752
NET ASSETS					
Total net assets		\$ 6,993	\$ 5,409	-	12,402
TOTAL LIABILITIES AND NET ASSETS		<u>\$ 6,993</u>	<u>\$ 5,409</u>	<u>\$ 97,752</u>	<u>\$ 110,154</u>

HARBOR BEACH COMMUNITY SCHOOLS
PRIVATE-PURPOSE TRUST FUNDS
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2006

	<u>ANNA BELLE SCRANTON SCHOLARSHIP</u>	<u>DEER ACRES SCHOLARSHIP</u>	<u>TOTAL 2006</u>
REVENUES			
Interest	\$ 1	\$ 191	\$ 192
Dividends	261		261
Donations			-
	<hr/>	<hr/>	<hr/>
TOTAL REVENUES	<u>262</u>	<u>191</u>	<u>453</u>
EXPENDITURES			
Scholarship	100		100
Increase (Decrease) in fair market value of investments	325		325
	<hr/>	<hr/>	<hr/>
TOTAL EXPENDITURES	<u>425</u>	<u>-</u>	<u>425</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(163)	191	28
NET ASSETS			
Beginning of Year	<u>7,156</u>	<u>5,218</u>	<u>12,374</u>
End of Year	<u>\$ 6,993</u>	<u>\$ 5,409</u>	<u>\$ 12,402</u>

HARBOR BEACH COMMUNITY SCHOOLS
AGENCY FUND - STUDENT ACTIVITIES
SCHEDULE OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN LIABILITIES
FOR THE YEAR ENDED JUNE 30, 2006

	<u>BALANCE AT</u> <u>6/30/2005</u>	<u>REVENUES</u>	<u>EXPENDITURES</u>	<u>BALANCE AT</u> <u>6/30/2006</u>
Advanced Placement - English	\$ 1,105	\$ 2,022	\$ 2,128	\$ 999
Art Design	1,672	2,073	1,633	2,112
Athletic Tournament	5,701	23,057	17,539	11,219
Band	7,707	15,580	17,018	6,269
Baseball Fund	233	-	-	233
Business Fund	19	-	-	19
Cheerleaders	389	-	-	389
Chicken BBQ	-	2,771	2,771	-
Class of '03	656	-	-	656
Class of '05	1,111	-	500	611
Class of '06	1,993	1,055	1,922	1,126
Class of '07	1,612	5,690	5,541	1,761
Class of '08	447	820	419	848
Class of '09	-	1,616	109	1,507
Coke Fund	3,890	17,740	20,976	654
Computer Club	1,515	-	-	1,515
Cross Country	83	2,389	2,172	300
Elementary Musical	125	270	417	(22)
Elementary Student Council	70	-	-	70
Elementary School Activity	1,015	9,530	5,634	4,911
Flower Fund	201	270	271	200
Fitness Center	-	600	-	600
Future Farmers of America	5,668	10,120	9,231	6,557
Future Farmers of America - Fruit Fund	-	7,723	7,723	-
Future Homemakers of America	282	-	-	282
Girls Soccer Club	-	1,558	1,558	-
Girls Varsity Basketball	321	906	1,079	148
Greenfield Village Trip	2,803	-	-	2,803
Greenhouse	157	368	-	525
HBAA & HBHS Scholarship	222	6,751	500	6,473
High School Band Trip	1,777	12,585	1,537	12,825
High School Play Fund	521	1,121	615	1,027
Home Liaison Fund	9,973	2,955	4,646	8,282
Huron Jr Honors Band	1,815	643	1,137	1,321
James Popilek Fund	1,200	-	-	1,200
Library Fund	289	1,269	853	705
Michigan Youth in Government	137	-	-	137
Middle School Projects	643	16,577	12,644	4,576
MS Football	-	1,000	757	243
MS Volleyball	-	2,736	807	1,929
Mural Fund	1,019	-	-	1,019
National Honor Society	1,377	403	982	798
Newspaper Fund	113	-	-	113

(Continued)

HARBOR BEACH COMMUNITY SCHOOLS
AGENCY FUND - STUDENT ACTIVITIES
SCHEDULE OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN LIABILITIES
FOR THE YEAR ENDED JUNE 30, 2006

(Continued)	BALANCE AT 6/30/2005	ADDITIONS	DELETIONS	BALANCE AT 6/30/2006
Patio Landscaping	\$ 668	-	-	\$ 668
Physical Education	176	-	-	176
Pop Fund	307	-	-	307
Resource Room Club	5	-	-	5
Ruthann Woodland Elementary Library	186	-	-	186
Saturday Fun Nights	92	-	-	92
School Activity fund	24	\$ 1,614	\$ 1,794	(156)
Science Telescope Project	700	-	-	700
Soccer	9	-	-	9
Softball	231	-	-	231
Staff Fund	206	-	-	206
Student Council	212	1,038	987	263
Student Parking	360	385	595	150
Student Supplies Shop	13	-	-	13
Track club	2,315	4,324	3,453	3,186
Tractor Pull	-	3,449	3,449	-
Volleyball	2,691	7,557	7,267	2,981
Weightlifting Club	3	1,084	274	813
Yearbook	(849)	9,559	7,728	982
Interest income	-	252	252	-
TOTALS	<u>\$ 65,210</u>	<u>\$ 181,460</u>	<u>\$ 148,918</u>	<u>\$ 97,752</u>

HARBOR BEACH COMMUNITY SCHOOLS
SCHEDULE OF BONDED DEBT
1998 (DURANT) BONDS
June 30, 2006

An annual appropriation to be made by the State of Michigan is the only revenue source for making the annual debt service payment on the bonds. If the legislature fails to appropriate funds, the district is under no obligation for payment.

PRINCIPAL DUE MAY 15		RATE	INTEREST DUE MAY 15		DEBT SERVICE REQUIREMENT FOR FISCAL YEAR	
					JUNE 30	AMOUNT
\$	3,280	4.761%	\$	1,263	2007	\$ 4,543
	3,438	4.761%		1,107	2008	4,545
	3,601	4.761%		943	2009	4,544
	3,773	4.761%		771	2010	4,544
	15,638	4.761%		5,805	2011	21,443
	4,140	4.761%		404	2012	4,544
	4,337	4.761%		206	2013	4,543
\$	38,207		\$	10,499		\$ 48,706

This bond, including the interest hereon, is issued in anticipation of payments appropriated and to be appropriated by the State under Section 11g(3) of Act 94 to the School District (the "State Aid Payments"). The School District hereby pledges and assigns to the Authority all of its rights to and in such State Aid Payments as security for this bond and the State Aid Payments which are hereby pledged shall be subject to a statutory lien in favor of the Authority as authorized by Act 94. This bond is a self-liquidating bond and is not a general obligation of the School District and does not constitute an indebtedness of the School District within any constitutional or statutory limitation, and is payable both as to principal and interest, solely from such State Aid Payments. The School District, as requested by the Authority, hereby irrevocably authorizes the payment of the State Aid Payments directly to the Authority's Depository.

HARBOR BEACH COMMUNITY SCHOOLS
SCHEDULE OF BONDED DEBT
2001 SCHOOL BUILDING AND SITE BONDS
June 30, 2006

The bond issue dated July 12, 2001 was for the purpose of erecting, equipping and furnishing additions to and remodeling, equipping, reequipping, furnishing and refurnishing the existing middle school and high school facility to provide a PreK-12 facility. During 2005, the District refinanced these bonds in the amount of \$9,345,000.

PRINCIPAL DUE	RATE	INTEREST DUE	DEBT SERVICE REQUIREMENT FOR FISCAL YEAR	
			DATE	AMOUNT
	4.250%	\$ 36,188	11/1/2006	\$ 36,188
\$ 315,000		36,188	5/1/2007	351,188
	4.050%	29,494	11/1/2007	29,494
325,000		29,494	5/1/2008	354,494
	4.200%	22,913	11/1/2008	22,913
340,000		22,913	5/1/2009	362,913
	4.300%	15,773	11/1/2009	15,773
355,000		15,773	5/1/2010	370,773
	4.400%	8,140	11/1/2010	8,140
370,000		8,136	5/1/2011	378,136
<u>\$ 1,705,000</u>		<u>\$ 225,012</u>		<u>\$ 1,930,012</u>

HARBOR BEACH COMMUNITY SCHOOLS
SCHEDULE OF BONDED DEBT
2005 REFUNDING BONDS
June 30, 2006

The 2005 Refunding Bonds will replace the bond issue dated July 12, 2001.

PRINCIPAL DUE	RATE	INTEREST DUE	DEBT SERVICE REQUIREMENT FOR FISCAL YEAR	
			DATE	AMOUNT
		\$ 207,688	11/1/2006	\$ 207,688
\$ 40,000	3.000%	207,688	5/1/2007	247,688
		207,088	11/1/2007	207,088
40,000	3.000%	207,088	5/1/2008	247,088
		206,488	11/1/2008	206,488
40,000	3.000%	206,488	5/1/2009	246,488
		205,888	11/1/2009	205,888
40,000	3.100%	205,888	5/1/2010	245,888
		205,268	11/1/2010	205,268
40,000	3.250%	205,268	5/1/2011	245,268
		204,618	11/1/2011	204,618
430,000	4.000%	204,618	5/1/2012	634,618
		196,018	11/1/2012	196,018
450,000	4.000%	196,018	5/1/2013	646,018
		187,018	11/1/2013	187,018
470,000	4.250%	187,018	5/1/2014	657,018
		177,030	11/1/2014	177,030
490,000	4.000%	177,030	5/1/2015	667,030
		167,230	11/1/2015	167,230
510,000	4.250%	167,230	5/1/2016	677,230
		156,393	11/1/2016	156,393
530,000	4.250%	156,393	5/1/2017	686,393
		145,130	11/1/2017	145,130
555,000	4.250%	145,130	5/1/2018	700,130
		133,336	11/1/2018	133,336
575,000	4.250%	133,336	5/1/2019	708,336
		121,118	11/1/2019	121,118
600,000	4.250%	121,118	5/1/2020	721,118
		108,368	11/1/2020	108,368
630,000	4.250%	108,368	5/1/2021	738,368
		94,980	11/1/2021	94,980
655,000	4.250%	94,980	5/1/2022	749,980
		81,061	11/1/2022	81,061
685,000	4.250%	81,061	5/1/2023	766,061
		66,505	11/1/2023	66,505
715,000	4.250%	66,505	5/1/2024	781,505
		51,311	11/1/2024	51,311
745,000	4.300%	51,311	5/1/2025	796,311
		35,294	11/1/2025	35,294
780,000	4.400%	35,294	5/1/2026	815,294
		18,134	11/1/2026	18,134
815,000	4.450%	18,123	5/1/2027	833,123
<u>\$ 9,835,000</u>		<u>\$ 5,951,917</u>		<u>\$ 15,786,917</u>

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August 30, 2006

To the Board of Education
Harbor Beach Community Schools
Harbor Beach, Michigan

In planning and performing our audit of the financial statements of Harbor Beach Community Schools for the year ended June 30, 2006, we considered the District's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of certain matters that are opportunities for strengthening internal controls and operating efficiency. The comments and suggestions regarding those matters follow. This letter does not affect our report dated August 30, 2006, on the financial statements of Harbor Beach Community Schools.

Current Year Comments

Budget Enforcement by the Michigan Department of Education

The Michigan Department of Education is changing their enforcement and monitoring of budget violations. They are currently focusing on total expenditures violations that exceed 1% of the total expenditures budget and total other financing uses that exceed 1% of the total other financing uses budget. The Department of Education will be issuing letters to school board presidents, the superintendent and the chief business official when they identify these types of violations.

Currently identified violations of the Act include, but are not limited to:

- Incurring expenditures in excess of the appropriation approved by the school board (Overspending your budget by line item).
- Ending the fiscal year with a deficit (negative fund balance).
- Adopting a budget that, when implemented, would put the district in a deficit.
- Adopting a budget after June 30th.

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The Department is also currently reviewing their interpretation of Section 17(2). This would be a situation where a district's actual revenues were less than budgeted revenues and, at the same time, depleted the fund balance, beyond what was approved in total by the school board.

We recommend that you adopt all budgets prior to June 30 and that you continue to review your current budget amendments during the year. There will be situations where there continue to be budget violations as disclosed in footnote 2 subsection 3 of the financial statements. While there may be technical violations of the act we believe the District's current budget procedures are adequate.

Cash Management – Federal Awards

The Michigan Department of Education has recently been notified that it, along with all other states, has misinterpreted the advance provision of the Cash Management Improvement Act (CMIA). The United States Department of Education started monitoring and auditing CMIA compliance and is notifying sub-recipients that advances are limited to three days cash needs. In other words, funds must be spent by the district within 72 hours of being drawn down from the USDE GAPS system. Because of this new awareness, the department will no longer allow 30-day cash advances for ongoing programs during fiscal year 2006/2007. 30-day cash advances may be permitted for new one-time federal grant programs at the discretion of program management.

We recommend the District request funds on a reimbursement basis in order to ensure compliance with the revised cash management interpretation.

We also recommend that the District review its compliance with the required timekeeping documentation and certifications for federally funded employees.

Small Staff

A separation of duties between persons who authorize transactions and persons who have control over the related assets does not always exist because of the small accounting staff in the School District.

The least desirable accounting system is one in which an employee is responsible for executing the transaction and then recording the transaction from its origin to its ultimate posting in the General Ledger. This increases the likelihood that intentional or unintentional errors will go undetected. In most cases, adequate segregation of duties substantially increases control over errors without duplication of effort.

We understand that due to the size of needed staff, a proper segregation of duties may be impractical and the "cost to benefit" relationship may not justify the addition of accounting staff to accomplish the desired segregation.

Due to the limited number of people working in the business office, we recommend that the Board review the schools internal controls. We also recommend that someone from the Board or administrative staff periodically review bank statements, bank reconciliations, and cancelled checks.

Internal Control Procedures

Since the receipts and disbursements of the athletic, hot lunch, and student activity funds are not under the same scrutiny as the general fund we recommend that the Board periodically review the internal control procedures of each of these funds.

We recommend that the District review internal control procedures for the athletic, hot lunch, and student activity funds including cash receipts procedures and expense approval procedures.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This report is intended solely for the information and use of Harbor Beach Community Schools, management, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the cooperation we received from your staff during our engagement and the opportunity to be of service.

Anderson, Tuckey, Bernhardt & Doran, P.C.

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Certified Public Accountants